

News from Jones Street

*Your legislative updates from Jackson Cozort,
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May 29, 2026

With the legislature on break this week, I wanted to take this time to explain an important pension concept that is fundamental to COLA and bonus decisions. For years, retirees have heard the phrase “unfunded liability” discussed in pension meetings, legislative hearings, and financial reports. Retirees have also heard that our local and state pensions are among the nation’s better-funded, which is rightfully perplexing, so we will explain.

At its core, an unfunded liability is simply the gap between what a pension system currently has invested and what it is projected to owe in future retirement benefits over many decades. Actuaries calculate how much money the system will likely need in the future to pay promised benefits, then compare that number to the assets currently held by the pension fund. If future obligations are larger than current assets, the difference becomes the unfunded liability.

That does not mean the pension system is “out of money,” nor does it mean retirees are in danger of suddenly losing their pensions. Pension systems operate over extremely long-time horizons. Employees and employers continue contributing every year, while investment returns are expected to compound over decades to help pay future obligations.

A simple way to think about it is a home mortgage. Most families do not pay for their house in cash on day one. Instead, they make payments steadily over time while building equity. Pension systems work in a similar fashion. The goal is not necessarily to have every dollar for every future obligation sitting in an account immediately, but rather to maintain a responsible long-term funding strategy capable of meeting obligations over generations.

This is where investment performance becomes critically important. When investment returns consistently fail to meet long-term targets, the pension fund gradually falls further behind the obligations it is expected to pay in the future. Over time, those missed returns compound into billions of dollars in additional unfunded liability.

For local governments, this creates very real financial consequences. When investment returns underperform, cities and counties are often required to increase employer contribution rates to help stabilize the pension system and keep it properly funded. In simple terms, weak investment performance can ultimately place greater financial strain on local government budgets and taxpayers, as more money must be directed toward pension obligations to offset lower-than-expected investment growth. These additional payments made by the employers to compensate for the “missed target years” is why the pension has stayed so relatively well funded despite missing investment projections.

That said, even with the additional funds put into the pension plans by employers, it still has been a “miss” on delivering COLAs and supplemental bonuses more often than not over the past two decades. Under North Carolina law, LGERS COLAs and bonuses are legally tied to investment performance averages above a 6.5% threshold. When returns underperform for extended periods, there is simply less excess funding available to provide inflation relief for retirees. To put it in the most direct terms, North Carolina’s management of these funds simply did not match the

performance of most other public pensions, and this is the primary reason LGERS and TSERS retirees have gone years without meaningful COLAs despite rising prices across nearly every aspect of daily life. But things are changing...

This is precisely why RGEA has placed such a strong focus on investment modernization and improving long-term pension performance. Stronger investment returns not only help reduce unfunded liabilities and stabilize contribution rates but also create greater opportunities for future COLAs and retiree inflation relief. Simply put, investment performance does not just affect numbers on a spreadsheet. It directly impacts retirees, local governments, taxpayers, and the long-term health of the Retirement Systems themselves. Both plans are on a strong three-year run in terms of investment returns, so things are improving. If you want to see information on returns, you can find them on page 9 of the most recent Living Power.

May 22, 2026

Although Senate President Pro Tem Phil Berger and House Speaker Destin Hall publicly announced an agreement two weeks ago on the major budget and tax framework items, North Carolina remains the only state that has not passed a budget as we head into the Memorial Day weekend. While leadership has acknowledged an agreement on the larger issues, no final conference budget document has yet been officially released.

Still, House leadership continued holding strong during negotiations on inflation relief for retirees and successfully secured a 2.5% one-time bonus for state retirees after the original Senate proposal did not include any pension supplement. While many retirees understandably continue advocating for a true recurring Cost-of-Living Adjustment, it is important to recognize that this was not a partisan disagreement this year. Neither the House, Senate, nor Governor's proposed budgets included a permanent recurring COLA. Although Governor Stein's proposal did include a larger one-time bonus than the House version, it also stopped short of a true COLA because of the extraordinary long-term cost associated with adding recurring pension obligations to the budget.

To understand the scale of the challenge, even a permanent 1% COLA would cost the state well over \$560 million dollars. Why has the cost become so massive? Quite simply, North Carolina now has significantly more retirees drawing benefits than active employees paying into the system. Today there are only around 78,000 active state employees, while there are nearly 280,000 retirees receiving pension benefits. People are also living longer than previous generations, while average pension payouts continue increasing over time. Even though a 2.5% one-time bonus is not a true COLA, it will still likely represent an appropriation exceeding \$130 million dollars and will almost certainly become one of the larger individual line items contained anywhere in the final state budget.

None of this changes the reality that retirees continue facing rising healthcare costs, inflation, and increasing financial pressure on fixed incomes. RGEA fully understands those concerns, and our organization will continue fighting for meaningful recurring COLAs and long-term solutions that help restore the purchasing power retirees have steadily lost over time. While the financial challenges surrounding permanent COLAs are very real, that does not mean the conversation ends here, nor does it lessen our commitment to continuing that fight moving forward.

As our local government members continue asking questions online, we also wanted to provide additional clarity on one of the most common misconceptions surrounding North Carolina's retirement systems: the management of the Local Government Retirement System and who actually determines local retiree COLAs or bonuses.

It is important to understand that every city, county, and local government in North Carolina is legally required to pass its own balanced budget each year. These budgets are funded locally, not through the state budget, and local employer

retirement contributions are paid from those local funds, primarily supported by property taxes and local revenues. Likewise, when pension investment performance falls short of expectations, local governments are ultimately responsible for covering those additional liabilities through increased employer contributions.

Years ago, the General Assembly delegated authority for oversight of the Local Government Retirement System to a Board of Trustees representing various local government constituencies across North Carolina. These Trustees include representatives from county government, municipal government, law enforcement, local employees, retirees, and other local service organizations.

Do these Trustees have the authority to approve COLAs or bonuses for local retirees? The answer is yes, but only within limits established by statute. Those increases may only occur when investment returns exceed certain required funding thresholds.

This is where the role of the State Treasurer becomes critically important. While local governments fund the system itself, investment management of retirement assets falls under the Treasurer's responsibility. State leaders have recently moved to modernize investment governance through the Investment Modernization Act with the goal of improving long-term investment performance and strengthening the retirement system over time.

In simple terms, local retiree bonuses and COLAs do not come from the state budget. They depend primarily on investment performance, actuarial funding conditions, and decisions made by the Local Government Retirement System Trustees within the framework established by state law.

RGEA has remained focused on the long-term structural issues impacting retiree benefits and retirement stability. We are encouraged that serious conversations are finally taking place surrounding investment performance, modernization, and the long-term sustainability of pension funding. At the same time, we fully recognize that many retirees continue struggling with rising healthcare costs, inflation, and the growing pressure placed on fixed incomes after years without recurring COLAs.

The reality is that meaningful long-term improvements will likely require both stronger investment performance and continued legislative engagement moving forward. While no single budget cycle will solve every challenge facing retirees, maintaining a seat at the table and continuing to push these conversations forward remains critically important for the future financial stability of North Carolina's retired public servants.

May 15, 2026

After months of negotiations, delays, rumors, and behind-the-scenes discussions, leadership in the North Carolina House and Senate has finally reached an agreement on a tax package and the larger budget framework that has kept Jones Street in a holding pattern for well over a year. While some details are still being finalized, the agreement appears to move the General Assembly beyond the political gridlock that had stalled major budget items for months and will allow lawmakers to begin advancing issues that state employees, teachers, and state retirees have been watching closely.

The agreement includes a 2.5% one-time pension supplement for retirees in the Teachers' and State Employees' Retirement System. This represents a substantial appropriation by the State of North Carolina, nearly \$150 million, directed toward helping retirees facing continued inflationary pressures.

Note: RGEA always advocates for COLAs for its retirees and recognizes that a one-time supplement does not make up for years of eroded buying power caused by the absence of regular COLAs. During this divisive budget process between

the House and Senate, neither chamber was willing to include a true cost-of-living adjustment in its budget, but both ultimately agreed to the bonus amount.

The announcement of the bonus by legislative leaders has prompted questions from retirees in the Local Government Employees' Retirement System about why they are not included. We have been responding to as many online questions as possible, and we want to provide additional information here.

Historically, North Carolina's state and local retirement systems were once more closely connected. However, the systems were separated decades ago, largely at the request of local governments and their representative organizations. Their concern was that if the systems remained combined, cities and counties could be subjected to unfunded mandates requiring them to fund the same pension supplements, bonuses, or COLAs approved for state retirees.

While larger, well-funded metropolitan counties might view such requirements as an unfunded mandate and an unwelcome budget hit, more rural or financially constrained counties could be forced to lay off current employees or scale back capital projects already underway to cover the cost. For these reasons, the systems were separated, and the LGERS bonus and COLA structure now relies entirely on investment returns.

Because LGERS depends completely on investment performance, and because achieving those returns has been challenging, RGEA has deployed strategic efforts to advocate for change on behalf of local government retirees. Over the past two years, we have advanced and supported key initiatives with Treasurer Brad Briner to ensure LGERS is more likely to deliver COLAs and bonuses. This work has included changes in governance, pension formula variables, and asset allocations. These improvements are already beginning to pay off by strengthening investment returns, which will give the Trustees the authority to deliver long-overdue pension relief to retirees. The timeframe for the Trustees' decision on COLAs and bonuses is January of each year. You can see specific investment improvements on page 9 of the most recent issue of Living Power, which was mailed to homes earlier this month.

Even with these improvements, we have not rested. We continue to collaborate with the Treasurer, the League of Municipalities, and the Association of County Commissioners to support the recent changes to the Employer Contribution Rate Stabilization Policy (ECRSP). These changes would give the LGERS Board greater flexibility to grant COLAs and bonuses to local retirees, with the flexibility it has not had in the past. You can read more about this in the May 1 edition of News from Jones Street.

As always, RGEA will keep everyone updated as budget finalization progresses.

May 8, 2026

Although things still appear relatively quiet on Jones Street, rumors continue to circulate that House and Senate leaders may be nearing an agreement on the long-stalled tax package. That development is critically important because without a tax agreement, the General Assembly cannot meaningfully move forward on other major budget items such as State Employee and Teacher raises, along with a desperately needed pension supplement for State Retirees. While nothing formal has been announced by either chamber, the next few weeks could prove very interesting as lawmakers attempt to determine whether negotiations finally begin moving forward again, or once again collapse under the weight of unresolved differences.

In other news, the recent news of WakeMed's proposed "strategic combination" with Atrium Health may have a

considerable impact on the thousands of state and local government retirees in Wake County and surrounding communities.

If the proposal is approved by Wake County commissioners and state and federal regulators, WakeMed would move from a locally governed, independent hospital system to part of Atrium Health, a division of Advocate Health, one of the nation's largest nonprofit health networks.

Atrium and WakeMed leaders say the partnership would strengthen long-term financial stability, expand access to care, and help the Triangle keep pace with the rapid growth of Duke Health and UNC Health. Atrium has pledged roughly \$2 billion in investments in Wake County over the next decade, including new facilities, expanded pediatric and behavioral health services, workforce development, and major technology upgrades.

Supporters argue that in today's healthcare environment, size matters. Larger systems have more capital, more leverage in recruitment, and more ability to expand specialty services. For retirees, the question is not just about the size of the healthcare system, but its affordability and access.

North Carolina already ranks among the most expensive states for healthcare in the nation. Studies show that when large systems absorb independent hospitals, competition can decline and prices can rise for patients, employers, and public plans such as the State Health Plan. For retirees living on fixed incomes, even small increases in premiums, copays, or out-of-pocket costs can strain monthly budgets. With retirees not receiving cost-of-living adjustments in years, stability in healthcare costs is of the utmost importance.

This does not mean this potential merger will automatically raise costs. But it does mean retirees have a legitimate concern and stake in the conversation on how consolidation might affect pricing and access over time.

Governance is another important consideration. WakeMed has long been accountable to Wake County through a locally appointed board. Under the proposed structure, decision-making authority would shift to a multistate organization headquartered outside the Triangle. While Atrium has pledged continued community engagement, retirees and taxpayers alike want assurance that local needs will remain a priority within a much larger system.

The timeline remains fluid. County commissioners recently delayed a vote to allow for more public input and a deeper review of financial and governance details. Additional hearings and regulatory reviews are expected in the months ahead.

For retirees, the core question of this potential merger is straightforward: Will this partnership protect access to high-quality care while keeping healthcare costs manageable for those living on fixed incomes? Know that RGEA will stay close to this issue and engage in the conversation with elected officials and decision-makers as it evolves.

May 1, 2026

This week could mark a monumental moment for local retirees. Our Executive Director, Tim O'Connell, and I attended the April 30 meeting of the TSERS and LGERS Boards of Trustees at the Treasurer's Department in Raleigh. The LGERS board unanimously approved a new Employer Contribution Rate Stabilization Policy (ECRSP) that would:

Increase the probability of a COLA when investment gains exist

The policy creates a clearer path for LGERS trustees to authorize a COLA or one-time supplement when plan gains are

available, increasing the likelihood that retirees receive cost-of-living relief in strong market years.

Create more transparency and predictability for retirees and households

Retirees will have a clearer view of their pension plan's health, reducing uncertainty about when future increases may occur. The policy will also help participating employers' budget more effectively through multi-year employer projections.

Protect against future benefit erosion through disciplined funding

A modest annual buffer of an additional 0.5% paid by employers helps preserve the plan's funded status and reduces the risk that shortfalls will harm the growth of future benefits. A stronger funding position also makes modest improvements in benefits more feasible without shifting high costs to employers. Note: With recent pension formula changes recommended by RGEA and approved by the trustees, employer costs are expected to decline over time, saving local governments and taxpayers money.

We at RGEA consider this a major win because, to put it bluntly, these are changes we have been recommending for years. I also want to give credit where it's due: hats off to the Treasurer's Department for bringing together stakeholders representing both retirees and employers to create a policy that not only increases the likelihood of COLAs for government retirees but also creates a more stable employer contribution rate for our cities and counties for years to come.

On a more somber note, the General Assembly is back in session. While committee meetings have picked up and some legislation is beginning to move, there is still little progress on what matters most: producing an actual state budget. If anything, lawmakers appear further apart on a comprehensive state budget than at any point since last year's impasse. The central sticking point remains tax policy, where House and Senate leadership continue to clash.

Until those differences are resolved, meaningful movement on the broader budget items including teacher pay, state employee raises, and state retiree bonuses remains highly unlikely.

In the meantime, lawmakers did come together on one critical issue, passing a \$319 million Medicaid funding measure that Governor Josh Stein quickly signed into law. The plan ensures continued health coverage for millions of North Carolinians and prevents the program from running out of funding in the near term. However, both parties acknowledged that this is only a temporary solution; larger, long-term funding challenges for Medicaid remain unresolved.

As budget negotiations remain stalled, frustration is beginning to show outside the legislative building as well. Thousands of teachers and public-education advocates are expected to gather in Raleigh today to protest the lack of school funding and ongoing compensation concerns, adding further pressure on lawmakers as the session takes shape.

This week offered a clear contrast between progress and gridlock. While the LGERS Board took a meaningful step forward for local retirees, the broader budget picture remains uncertain. We will continue to monitor developments closely and advocate on your behalf as these discussions unfold. This week's action is a clear reminder that meaningful change is possible when the right voices are at the table, and we will keep pushing to ensure that progress carries through to Jones Street in the days ahead.